

## **PUBLIC EMPLOYEES RETIREMENT BOARD MEETING**

March 23, 2006

8:30 A.M.

A regular meeting of the Public Employees Retirement Board convened at 8:30 a.m., Thursday, March 23, 2006, in the TierOne Community Meeting Room at 1221 N Street, Lincoln, Nebraska.

The Board members were notified of the meeting by letter dated March 10, 2006. Public notice of the meeting scheduled for March 20, 2006, was published in the Lincoln Journal Star and Omaha World Herald on Monday, March 13, 2006.

The meeting scheduled for March 20, 2006, but was rescheduled due to weather conditions. Public notice of the rescheduled meeting was published in the Omaha World Herald on Wednesday, March 22, 2006.

Mr. Peters chaired the meeting and Ms. Linder recorded the minutes.

MEMBERS PRESENT:	CHARLES PETERS, CHAIR
	DENIS BLANK, VICE-CHAIR
	ROGER REA
	DALE KAHLA
	MARK SHEPARD
	GLENN ELWELL
	RICHARD WASSINGER
	CAROL KONTOR, EX-OFFICIO

MEMBERS ABSENT:	JUDGE GLENN CAMERER
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### **NONMEMBERS PRESENT:**

ANNA SULLIVAN	DON ARP JR
Director	Legislative Performance Audit Analyst
JASON HAYES	CINDY NICHOLS
Legislative Retirement Counsel	Legislative Performance Audit Analyst
GARY BUSH	JOE SCHAEFER
DAS - State Budget Administrator's Office	Legal Counsel
BEN MATTERN	JAN FOX
Ameritas	Training Supervisor
ANDRÉ MICK	JANE HANSEN
Legislative Performance Audit Analyst	Retirement Plan Supervisor

RANDY GERKE  
Accounting and Finance Manager  
TERESA ZULAUF  
Internal Auditor

SHEILA LINDER  
Administrative Assistant

**Agenda Items 1 and 2 - Meeting Called to Order:** Chairperson Peters called the March 23, 2006, Board Meeting to order at 8:32 a.m. Present at roll call: C. Peters, D. Blank, R. Rea, D. Kahla, G. Elwell, R. Wassinger, and C. Kontor. Absent: M. Shepard and G. Camerer. Mr. Shepard contacted Ms. Sullivan and will be attending the meeting, but will be arriving late. Judge Camerer is unable to attend the meeting today.

**Excuse Board Members:** Mr. Blank moved to excuse Judge Camerer. Mr. Rea seconded the motion. Members voted as follows: For: D. Blank, R. Rea, D. Kahla, M. Shepard, G. Elwell, R. Wassinger, and C. Peters. Against: None. Motion carried.

**Agenda Item 3 - Approval of Minutes:** Mr. Rea moved for approval of the minutes of the February 27, 2006 Board Meeting. Sgt. Elwell stated that he abstained from voting on the motion taken after Executive Session regarding T. Nesbitt, which was not correctly reflected in the minutes. The minutes need to be changed to show that Sgt. Elwell abstained. Motion to approve the minutes as corrected was seconded by Mr. Blank. Members voted as follows: For: R. Rea, D. Kahla, M. Shepard, G. Elwell, R. Wassinger, C. Peters, and D. Blank. Against: None. Motion carried.

**Agenda Item 4 - Approval of Budget Status Report & February Retirement Report:** Mr. Rea moved to approve the budget status report and the February Retirement Report. Motion was seconded by Sgt. Elwell. Members voted as follows: For: D. Kahla, M. Shepard, G. Elwell, R. Wassinger, C. Peters, D. Blank, and R. Rea. Against: None. Motion carried.

**Agenda Item 5 - Request for County Plan Expense Increase:** Ms. Sullivan stated the budget approval we receive from the Legislature is permission to spend the pension assets to cover our operating expenses. We do not have general fund appropriations for our budget. Our operating budget for our office staff is program 041 and the operating budget for Board expenses is program 042. Program 515 is the general fund appropriations which goes to the pension assets.

In order to have the cash needed to pay the monthly bills, we have assessed a fee on the assets of the Defined Contribution (DC) portion of the State and County plans. The fee has been ten basis points per year. Now that all new members are placed in the Cash Balance portion of the State and County plans we are no longer receiving forfeited employer matching contributions in the DC portion of the forfeiture fund. All DC members are now vested thus we are no longer receiving forfeitures in the DC portion of these plans.

Forfeitures have traditionally been our source of funds to pay the operating expenses associated with our State and County plans. The accounting staff advised Ms. Sullivan that our monthly expenses are exceeding the fees collected to pay them. (See handout provided to the Board.) It is estimated that 15 basis points per year would generate approximately \$21,280 per month which would be slightly more than what we expect our monthly expenses to be on average.

Ms. Sullivan requested the Board's approval to go from 10 basis points to 15 basis points for County DC plan members only effective May 1.

For the State plan, we have had a much larger forfeiture fund, and in fact we were able to stop the fee (10 BP) in March of 2005. We expect we will not need to reinstate the fee for State members for approximately 34 months.

We will be notifying the County plan members through an article in the upcoming newsletter that will go out with the quarterly statement.

Mr. Rea moved that the request for 15 basis points for the County defined contribution plan be approved effective May 1. Mr. Wassinger seconded motion. Members voted as follows: For: G. Elwell, R. Wassinger, C. Peters, D. Blank, R. Rea, D. Kahla, and M. Shepard. Against: None. Motion carried.

**Agenda Item 6 - Information System Update:** Mr. Gerke reported the area has been dealing with some unfortunate absences. They are very busy keeping up with the PIRs (change requests) and keeping all computers functioning. There are 59 open PIRs at this time; many are currently revisions to letters and forms within PIONEER. The PIRs are covered by our maintenance agreement with Covansys.

Also two meetings have been held with the IT subgroup as we address the transition to a new record keeper for the State, County and DCP plans. Work has begun on the interfaces between the record keeper and the various counties and the State of Nebraska payroll system.

There is one CCR (a billable change request) in progress dealing with the 7% compensation cap for school members which was part of LB 503 passed last year. Work on the 7% cap has taken a large portion of time of the IT team and managers in defining how we want to automate this process.

The NITC analysis to evaluate the risk in changing the PIONEER system from Forte to JAVA has been started. Some initial stats show: 1,781 stored procedures on PIONEER, 683 tables, 50 GB in size. We do have Covansys on site today and plan to have the NITC representative meet with them today.

At the last Board Meeting, the Board asked when beneficiaries could be listed on the members' statements. Currently we receive beneficiary forms and image them into the member's account, however, the data is not entered into the data base. There is some

overtime being worked by staff to get the beneficiary data into the data base. Our goal is to have members check beneficiaries and/or change them themselves on line. The names will not appear on the statements in July.

We have approximately 36,000 active school members and about 12,000 beneficiaries which are entered into the PIONEER database. All new forms received are being both imaged and data entered into PIONEER. We are converting old microfilmed beneficiary documents to images within PIONEER, so there is an image available for staff to view easily when a member calls the office. However, it would be very time consuming to go back and data enter this older beneficiary information

Mr. Gerke also announced that Covansys is being purchased by Saber Solutions, Inc. This company has other government clients; however they do not offer public pension information systems at this time. Covansys has confirmed that this will be a seamless transition for us and we will not see a difference. We will be working with the same people at Covansys with the PIONEER support contract. Ms. Sullivan distributed a draft letter of Assignment of Contract. She asked the Board to review the letter so she can sign and return to Covansys by the 31<sup>st</sup> of March. Covansys has 382 people who work on state and local pension information systems. Nine states now have projects with Covansys in various stages.

We currently have a maintenance and support contract with Covansys and any future contracts are to be decided. We review this contract every six months. Normally, we would have Sonjay Gupte with Covansys present an annual report to the Board in June or July. He was not able to attend today's meeting to discuss this change, but is willing to attend the April meeting if the Board would like.

Mr. Rea moved to accept Mr. Gerke's IT report. Mr. Kahla seconded the motion. Members voted as follows: For: R. Wassinger, C. Peters, D. Blank, R. Rea, D. Kahla, M. Shepard, and G. Elwell. Against: None. Motion carried.

We do not have in-house staff to provide the support and maintenance we need for PIONEER at this time. As we have indicated previously we are in the process of determining if we need to convert to JAVA and Ms. Sullivan stated there are differing opinions on that issue. Ms. Kontor asked that since Covansys will lose support for Forte, could we use this as leverage somehow with this contract.

Mr. Rea moved for approval of the Assignment Contract with Saber Solutions, Inc. Mr. Blank seconded the motion. Members voted as follows: For: C. Peters, D. Blank, R. Rea, D. Kahla, M. Shepard, G. Elwell, and R. Wassinger. Against: None. Motion carried.

Ms. Sullivan will ask Sanjay to attend the June or July meeting to provide his annual report and to update us on these matters.

**Agenda Item 7 - Ameritas Annual Report:** Mr. Mattern was present to provide the Ameritas Annual Report. Ameritas manages the operation side of 3500 defined contribution plans, which is approximately \$3 billion in retirement assets.

Mr. Mattern reviewed the report. A copy of the report can be reviewed at the NPERS office.

Following the report, Mr. Mattern thanked the Board and staff for the many years of business, which dates back to the 1960's. He has been working with NPERS since 1988 and he stated it has been very rewarding. He wished the Board and the staff well as we move forward.

Mr. Peters confirmed that the Board and staff have totally enjoyed working with Mr. Mattern and the Ameritas staff.

The Board took a break at 9:48 a.m. and reconvened at 10:01 a.m.

**Agenda Item 8 - Legislative Update:** Mr. Schaefer reported that LB 1019 was signed by the Governor yesterday. We have already been discussing implementing the changes found in this new legislation.

He anticipates action soon on LB 366, which is still sitting on final reading. There are only 13 legislative days remaining.

Mr. Hayes has provided information on intended interim studies. They include definition of compensation for school employees. Mr. Rea mentioned the health insurance program for school employees is going to have a health savings account plan. It will not be district by district. There will be 25 groups that will pilot this to see how it works and work out the kinks. The district does not make the choice; it is made on an individual basis. Names of individuals with knowledge on this issue that could be contacted were provided in order to include this in the Interim Study on defining compensation for school employees.

Other interim studies include purchasing power of the original benefit for school employees, actuarial assumptions, general principles of sound retirement planning, additional contribution to the School Employees' Retirement System administered under the Class V Retirement Act, and an umbrella study of public employee retirement systems, which is traditionally done to allow some leeway if something comes up late or at the end of the session.

With LB 1019 we have now adopted a 30-year amortization schedule for the unfunded actuarial accrued liability that will take affect with the next actuarial report on July 1, 2006. The fiscal office had requested that the actuary conduct a study using the five-year cost projection using the 30-year amortization. A letter addressed to Kathy Tenopir from Buck Consultants has recently been released and so was provided to the Board. The information provides the estimated contribution rates for the three Defined Benefit (DB) plans and what could be additionally required using a closed 30-year period.

In LB 1060 (the current budget legislation), there are appropriations for the School plan of \$12.8 million and approximately \$1 million for the Patrol plan as a result of the annual actuarial results. The letter provides information on what we expect will be needed going forward with the adoption of the 30-year amortization vs. 25-year, assuming we earn an 8% rate of return on the plan assets.

We estimate, per the actuary's letter, there will need to be additional contributions for each of the next five years for the School, Judges, and State Patrol, if our assets return 8% per year.

Mr. Slishinsky will be attending the April Board Meeting. Member groups will need to be appraised of what is going on. Mr. Rea suggested including the groups in that meeting. Ms. Sullivan may hold a meeting following the Board Meeting with these groups.

Mr. Kahla moved to accept the legislative report. Mr. Rea seconded the motion. Members voted as follows: For: D. Blank, R. Rea, D. Kahla, M. Shepard, G. Elwell, R. Wassinger, and C. Peters. Against: None. Motion carried.

**Agenda Item 9 - Investment Officer's Update:** Ms. Kontor distributed the NIC's Annual Report for 2005. She reviewed the report.

Ms. Kontor distributed a copy of information on the Northern Ireland issue. The NIC attorney believes that NIC is interpreting this issue correctly. Ms. Kontor met with Sen. Bourne and they agree this issue belongs in the Legislature for them to determine. LB 1022 was indefinitely postponed by the Legislative Retirement Committee.

The NIC plans to make a public announcement next Wednesday regarding the new Investment Officer following the Legislature's confirmation. The Governor has approved the Council's selection of Dave Bomburger. He will be starting in the position July 1, 2006.

Mr. Blank moved to accept the Investment Officer's Report. Sgt. Elwell seconded the motion. Members voted as follows: For: R. Rea, D. Kahla, M. Shepard, G. Elwell, R. Wassinger, C. Peters, and D. Blank. Against: None. Motion carried.

**Agenda Item 10 - Annual Report to the Legislature:** A copy of the final Annual Report to the Legislature was provided to the Board. The report was given to the Legislature yesterday. The Board received a draft copy of the report at the February meeting.

Mr. Blank suggested focusing on the action plan at the Board retreat.

Mr. Rea moved that the Legislative Report for 2006 be approved. Mr. Shepard seconded the motion. Members voted as follows: For: D. Kahla, M. Shepard, G. Elwell, R. Wassinger, C. Peters, D. Blank, and R. Rea. Against: None. Motion carried.

**Agenda Item 11 - Director's Report:** Ms. Sullivan reported staff started to meet with Union Bank almost immediately after the February Board meeting. Subcommittees have been set up and they are meeting every Tuesday to plan the conversion.

We continue to monitor legislative activity and are now working on the implementation of LB 1019 and LB 366

The NITC analysis of PIONEER is going well.

Ms. Sullivan stated as a follow-up to the Manager's retreat held last fall a survey was conducted of the agency with the assistance of State Personnel. Four employees provided a presentation at the agency meeting regarding employee attitudes and the need for communication.

Ms. Sullivan met with the County Clerks in the Northeast District recently and asked for their feedback. She advised them of the awarding of recordkeeping contract to Union State Bank. We will meet with them in June for their summer meeting in Grand Island.

Bill Robinson with Hartford Life Insurance Corporation was not able to attend the meeting this month so he will provide his annual report to us in April. If he is not able to attend, he will send someone else.

Mr. Slishinsky will be here next month with the annual actuarial report for the State and County Cash Balance plans. We expect the actuary to provide details that will allow us to proceed with processing the make-up dividend approved by the Board in January.

The State, County and Deferred Compensation Plan audits will start the beginning of April.

Mr. Rea had requested information on benefit payment amounts per month by county. Ms. Sullivan distributed a spreadsheet for the Board's review. Mr. Rea asked that the information be provided in alphabetical order as well.

The Age Based Fund by statute is to become available to DC State and County members on July 1, 2006. The statute does require that we use the existing premix funds for the age based fund. We need to determine how the ages will break. Ms. Kontor stated this is a Board decision. She suggested setting up focus groups of employees to get involved with the recommendation on this decision. Mr. Blank also suggested a focus group for the member statements since we are moving to the new recordkeeper. Ms. Sullivan and Ms. Fox will work on these suggestions.

Sgt. Elwell moved to approve the Director's report. Mr. Kahla seconded the motion. Members voted as follows: For: M. Shepard, G. Elwell, R. Wassinger, C. Peters, D. Blank, R. Rea, and D. Kahla. Against: None. Motion carried.

**Agenda Item 12 - Public Comments or Correspondence from Citizens:** There were no public comments or correspondence from citizens with business not scheduled on the agenda.

It was noted that no motion had been made to approve the Ameritas Report. Sgt. Elwell moved for approval of the Ameritas Annual Report. Mr. Rea seconded the motion. Members voted as follows: For: G. Elwell, R. Wassinger, C. Peters, D. Blank, R. Rea, D. Kahla, and M. Shepard. Against: None. Motion carried.

**Agenda Item 13 - Chairperson's Comments:** Mr. Peters stated he was interviewed by the Performance Auditors. He stated he felt the scope of the audit is badly biased and inaccurate and he is very disturbed by this. We do not know who came to the committee to say

something needed to be done. The concept of fairness has been violated. As a principle, he stated we ought to pursue the idea that the Audit Committee should be willing or required to say who brought a complaint. We have nothing to hide. He is proud to work with the people on this Board and looks forward to being cleared of any wrong doing.

**Agenda Item 14 - Future Meetings/Agendas:** The next meeting will be held on Monday, April 17, 2006, in the TierOne Community Meeting Room at 1221 N Street. Items on the agenda will include the Cash Balance Actuary Reports, Equal Retirement Benefit Fund, a final legislative update, and the Hartford Annual Report.

**Agenda Items 15 and 16 - Executive Session:** At 12:00 p.m., Mr. Rea moved that the Board exit Regular Session and convene in Executive Session for the purpose of discussing a legal update. Motion was seconded by Mr. Kahla. Members voted as follows: For: R. Wassinger, C. Peters, D. Blank, R. Rea, D. Kahla, M. Shepard, and G. Elwell. Against: None. Motion carried.

At 12:48 p.m., Mr. Blank moved that the Board exit Executive Session and reconvene in Regular Session. Motion was seconded by Mr. Rea. Members voted as follows: For: C. Peters, D. Blank, R. Rea, D. Kahla, M. Shepard, G. Elwell, and R. Wassinger. Against: None. Motion carried.

Mr. Blank asked if we are scheduled to do another Benefit Adequacy Study. Ms. Sullivan stated we will be asking for appropriations for the experience study but have not discussed a benefit adequacy study. The study done in 2000 was initiated by the Legislature, not our office. Mr. Blank noted how inadequate the state and county plans are. The county plan account balances are particularly poor.

**Adjournment:** Mr. Rea moved that the meeting adjourn. Motion was seconded by Sgt. Elwell. Members voted as follows: For: D. Blank, R. Rea, D. Kahla, M. Shepard, G. Elwell, R. Wassinger, and C. Peters. Against: None. Motion carried.

The meeting adjourned at 1:07 p.m.

Anna J. Sullivan  
Director